THE WHITE HOUSE

WASHINGTON

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SECRET

August 6, 1982

MEMORANDUM FOR THE CHAIRMAN OF THE SENIOR INTERAGENCY GROUP INTERNATIONAL ECONOMIC POLICY

SUBJECT: Indian Borrowing from ADB and US-Indian Economic Relations (U)

The United States has important political and security interests at stake in its relations with India. To safeguard these interests, it is essential that the United States be able to relate positively to India in its development efforts. (S)

U.S. development policy calls for the United States to mature countries like India from the soft loan windows of the multilateral development banks to the hard loan windows and eventually to graduate them from public to commercial financing. As India borrowing from soft windows is reduced, we need to look for other areas in which to support India development and economic goals. (S)

The SIG-IEP is therefore directed to explore and present for NSC consideration, other areas in which the United States might improve cooperation to enhance Indian development. Specifically, the SIG-IEP should present recommendations in the following areas (which are not intended to be exhaustive):

-- Trade initiatives, including expanded product coverage for India imports under GSP, bilateral trade negotiations with India, etc.

-- Initiatives in the area of private investment, such as a bilateral investment treaty, OPIC activities, multilateral insurance schemes in the World Bank, an equity financing facility in the ADB, etc.

-- Commercial financing initiatives, such as technical assistance to facilitate India borrowing on private capital markets.

-- Support for higher levels of Indian borrowing from hard loan windows in multilateral development banks where India is a current borrower.

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-- Cooperation in scientific and technological areas. (S)

The SIG-IEP should not limit its recommendations to consensus area but identify agency positions on more controversial measures that significance for Indian development. (S)

The SIG-IEP should present its report by COB, August 30, 1982. (S)

Ronald Reagan

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ECONOMIC OVERVIEW

Since independence the Indian economy has grown by 3.5-4.0% per annum, with little tendency for the growth rate to rise or fall below this range on a sustained basis. Yet investment as a proportion of gross domestic product has more than doubled, from around 11% in the early 1950s to 24% in the early 1980s. This means that the capital-output ratio has deteriorated. Part of the deterioration probably can be explained by India's gradual industrialization. However, widespread inefficiency and disincentives toward private investment, both domestic and foreign, have played a part. Moreover, its defense expenditures (estimated at $5.1 billion in 1981) have siphoned away capital that could have been more effectively used in productive investment.

Over the years India has benefitted greatly from bilateral and multilateral assistance from a variety of sources, including the World Bank, the United States, and the USSR. (Table attached.) India is by far the largest borrower from the World Bank (cumulative $12.8 billion as of June 30, 1981) and in October 1981 a $5.7 billion three-year IMF program for India was approved. This was the largest program ever approved by the IMF. Meanwhile, the United States has provided about $10.7 billion to India since that country gained independence in 1947. India can expect to continue to be a major recipient of both bilateral and multilateral foreign assistance. However, the relative importance of aid needs to be placed in perspective. For example, in 1981 total foreign aid represented about 10 percent of India's imports and about 5 percent of total savings. Similarly, domestic savings were 92% of total savings in 1981. During the course of the next decade, it is highly likely that India will have to place even greater reliance on domestic savings and non-concessional capital because it will have to compete with China and other poor countries for the pool of concessional funds.

There are reasons for optimism about India's ability to cope with this new situation. First, as noted above, investment as a proportion of GDP has been surprisingly high considering India's per capita income level, and domestic savings have traditionally financed most of India's investment. Second, India has a good credit standing in the private financial markets and has begun to tap that source of capital. Third, India's export sector is extremely diverse. Fourth, India has energy resources which can be exploited. Fifth, the Indian government (although rather statist in its approach) has traditionally followed quite conservative macroeconomic policies. Sixth, and perhaps most important, the GOI seems to recognize that it must liberalize its economic regime if it is to realize sustained high growth rates. This will involve opening up private investment opportunities in increasingly sophisticated industrial sectors to both domestic and foreign private entrepreneurs.

India has been looking at the economic strategies of its East Asia neighbors and has already begun a calculated and modest reform effort as evidenced by the IMF program. For example, it has continued to liberalize its import and investment regimes in the face of the global slump. Also, it has taken a long view toward economic adjustment and development, i.e. despite a deterioration in its external accounts since IFY 79/80, the GOI has been drawing on reserves and external credit to maintain the high level of investment needed to effect the adjustment required to reach a sustainable rate of growth with BOP equilibrium.

The United States should encourage and support the GOI in its efforts to restore market-oriented prices and incentives. We can most readily emphasize these views through continued support for the types of reforms embodied in the IMF program. Our OPIC and BIT programs can be useful in this regard by encouraging the GOI to open further its economy to private initiative. In this connection, the energy sector is particularly attractive, since India possesses untapped resources and major BOP savings could quickly be realized with the help of U.S. energy companies.

U.S. Bilateral and Multilateral
Assistance to India
($ millions)

PROGRAM	U.S. FY 1980	U.S. FY 1981	1962-1981 Cumulative
U.S. Bilateral:			
AID	103.2	104.5	3,349.0
PL 480	118.3	170.6	4,499.5
IMET	0.3	---	146.4
EXIM	35.0	79.5	492.4
Other	---	---	119.5
Multilateral:			
IDA	1,285.0	1,281.0	9,474.1
IBRD	155.0	500.0	2,264.1
IFC	8.6	76.1	140.7
IFAD*	17.0	25.5	135.6**
UNDP	20.4	18.7	147.7
Other U.N.	17.0	123.3	314.0

* Calendar years

** Includes contingent commitments of $25.5 million.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

CONFIDENTIAL

U.S. Trade Relations with India

Description of activity: Through the GATT Ministerial, the United States is seeking multilateral endorsement of several initiatives to address the major trade problems of the eighties, including means of expanding and liberalizing trade between developed and developing countries. In addition, the Administration is seeking extension of the Generalized System of Preferences (GSP) beyond its expiration in 1985.

The proposed "North/South Round of Trade Negotiations on Market Access" would be of direct benefit to India and the other developing countries, while several of the other proposals on safeguards, services, and to some extent high technology, can be of longer term interest to them. Although our two countries have quite different perspectives on certain specific issues, the United States and India share many common goals in the trade area, most notably that international trade should remain open and that the GATT should operate as an effective institution for promoting freer trade. The United States has worked very closely with India during preparations for the GATT Ministerial in an effort to overcome India's reservations about our initiatives and to gain their endorsement for the proposals. Consultations during the next two months will be of particular importance to enable our two countries to reach understandings on ways in which we can work toward realization of mutual goals in the international trade area.

Two concrete trade policy initiatives by the United States -- the proposed North/South Round and the renewal of GSP -- should be of particular interest to India. With its considerable export capabilities in the industrial sector, India would be in an excellent position to take advantage of the new opportunities which these initiatives should open up. The North/South Round will benefit India in at least two ways: by providing greater access to the markets of the developed countries for products on which they have been eliminated from GSP eligibility or for non-GSP products; and by contributing to more open South-South trade, as developing countries (principally the more advanced) will offer their concessions on a most-favored-nation

basis. The U.S. GSP has been of considerable benefit to India, whose duty-free shipments under the program grew from $76.2 million in 1976 to $160.9 million in 1981. Renewal of the program likely will involve extensive graduation of the more advanced developing countries, which will result in expanded market opportunities for the other developing countries.

Recommendation: That the United States intensify its consultations on trade matters with India, both before and after the November GATT Ministerial. Beforehand, this effort should focus on gaining their endorsement of the North/South Round as well as our other initiatives. Once work programs on the new areas are established in the GATT, there will be frequent occasion for our two countries to work together on areas of mutual concern. We also should consult with India on the proposed provisions and product coverage of a renewed U.S. GSP. These actions would signify to the Government of India our recognition of their important role in international trade, both in the GATT and among the developing countries.

USTR: Melissa Coyle
395-6813
8/18/82

Treasury: Jack Sweeney/ITT

Export Control Policy Towards India

DESCRIPTION:

Four problem areas with respect to exports to India can be identified: 1) Potential diversion of sensitive technological exports to the Warsaw Pact countries; 2) nuclear-related exports; 3) missile-related exports; and 4) potential military applications of dual-use exports by the Indian Ministry of Defense. We would like to eliminate these problems in order to develop better U.S.-Indian relations. In addition, the Government of India has expressed concern about long delays and seeming inconsistencies in the processing of export applications for India.

In response to these concerns, emphasis has been placed on the first area as the one most open to a solution that would promote better U.S.-India relations. India continues to be a non-signatory of the Nuclear Non-Proliferation Treaty, and our nuclear export policy is generally consistent for all non-signatories. Missile-related exports are currently the subject of interagency discussions, and India may well be targeted as a country of concern regarding nuclear-capable missile proliferation. The fourth area is of special concern to the Department of Defense, but, as with missile technology, current controls do not apply in this area.

Intelligence reports indicate the possibility of the diversion of U.S.-controlled equipment and technologies to the Warsaw Pact countries through India. Ambassador Barnes has discussed our concerns in this area with Indian officials who have expressed a willingness to cooperate in working out a government-to-government understanding to protect U.S. technology.

Agreement has been reached to send an interagency team at the DAS level to New Delhi in the fall to discuss the matter more fully. The team will focus on three areas: 1) India-USSR strategic and technological agreements; 2) Indian security arrangements for handling sensitive U.S. technologies; and 3) Ministry of Defense activities involving U.S. technologies. Presumably these discussions will lead to a mutual agreement on licensing of U.S.-controlled sensitive technologies.

Drafted by: State/EB/TDC/EWT: KMontgomery
8/18/82 632-1256
Clearances: State/EB/TDC/EWT: WARoot
State/EB/TDC: DLamb DL
State/NEA/INS: SEisenbraun
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Treasury/ITT: JSweeney

U.S. Private Investment Program Available to Support Indian Development

Bilateral Investment Treaty (BIT) Program

At Cancun last fall the President stressed the important role that the private sector can play in assisting the economic development of developing nations. Since that time the United States has initiated a Bilateral Investment Treaty (BIT) Program program to provide basic guarantees and protection for U.S. investors in those countries which enter into a BIT with the United States. The Administration has developed a prototype BIT which it is using to negotiate with other countries. The U.S. prototype covers four main areas: national or most favored nation treatment; compensation in the event of expropriation; transferability of capital and profits; and dispute settlement.

Until recently the basic thrust of India's investment policies have served to discourage U.S. investors, such as IBM from establishing operations in India. It would be useful to take advantage of recent developments in our relationship to reassert to India that BITs have a positive impact on potential U.S. investors and that BITs facilitate long term, self-sustaining growth in their country. We believe this is consistent with India's development and economic goals.

Recommendation

In February 1982 the Indian Government informed the United States Government during discussions in India that it was not interested in the BIT program. In light of recent developments and policy considerations, we believe it would be useful to approach India again concerning a possible BIT with the United States. However, we should begin negotiations with India only if they take the initiative to request such negotiations.

8/18/82
Drafted and Approved: Ed Rozynski USTR
Cleared: Stewart Lynn - State Department
Conrad Ouellette - Treasury Department

Indian Oil and Gas Development

DESCRIPTION OF INITIATIVE

USG officials should stress the availability of private funds and the advantages to India of developing its energy resources on a production sharing basis.

Fuel imports are a serious balance of payments problem, and India needs to develop its own rich hydrocarbon reserves. India has turned to the World Bank for help in financing, but most of the projects appear to be commercially viable and/or of interest to foreign private oil companies on a production sharing basis. India has offered a limited number of production sharing concessions, but the results were disappointing to India because more desirable tracts were withheld and the companies regarded the terms as too stringent. Only one contract has been signed to date, although a second round of concessions reportedly offering improved terms and more desirable blocks is in the making.

RECOMMENDATION

USG officials should stress that private investment by foreign companies on a production sharing basis will enable India to proceed rapidly with development of its energy resources without worsening its balance of payments or impinging on its ability to borrow under its current IMF ceiling. Under production sharing arrangements, India would not have to secure external financing, yet would share the financial returns and have the added oil supplies.

Drafted by: D. Mercer, ICE
Cleared by: E. Chase, ICE
C. Schotta, IC
August 19, 1982

Enhanced Overseas Private Investment Corporation (OPIC) Activities in India

DESCRIPTION OF INITIATIVE: OPIC insurance and finance services are operating in India to assist U.S. firms in making investments there. OPIC also has small "Investment Encouragement" authority primarily involving co-financing of preinvestment feasibility surveys and grants for business management and manpower training programs.

As part of its efforts to facilitate investment in the developing world and as a politically symbolic gesture, OPIC organizes investment missions which permit groups of American executives to meet with high level government officials and prospective joint venture partners from the local business community. Such an investment mission to India is already planned for the spring of 1983.

OPIC is authorized by statute under section 104(e) of the Agricultural Trade Development and Assistance Act (Cooley loan provision), and section 234(c) of the Foreign Assistance Act to make foreign currency loans in such foreign currencies which the Secretary of the Treasury determines to be excess to the normal USG requirements. Under such provision, OPIC has made loans to U.S. firms of excess Pakistan rupees.

RECOMMENDATION: OPIC should be encouraged to increase its insurance and finance activities in India within the limits of its authorities and resources to devote Investment Encouragement resources to facilitate investment in India.

In addition, OPIC should be encouraged to maximize the quality of U.S. business participation in the investment mission and the Embassy instructed to extend all possible assistance to enhance the symbolic impact of the mission in India.

Finally, an inter-agency group under State Department auspices is being established to review uses of excess rupees owned by the USG (see separate background paper: Excess Currency Status of India). The group should be encouraged to consider whether uses by OPIC of of these currencies to make loans to American private enterprises in India would be appropriate.

Drafted by: David Husband, OPIC/Development
Cleared by: Gerald T. West, OPIC/Development
Joseph Formoso, Treasury
Ron Silberman, OMB

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U.S.-India Income Tax Treaty

DESCRIPTION OF INITIATIVE

The United States presently has no income tax treaty with India. There have been a number of unsucessful attempts over the years to conclude a treaty. The most recent series of negotiations began in 1975 and broke down in 1977 over the issue of the inclusion of a "tax sparing" credit, on which India has, since 1977, insisted and to which the U.S. cannot agree.

A tax sparing credit is a U.S. foreign tax credit for taxes which are waived under the other country's investment incentive laws. The Senate has considered and rejected such provisions in the past. Though the U.S. cannot agree to a tax sparing credit or other investment incentive we are prepared to be quite flexible on other issues of concern to developing countries in tax treaties.

We now have reason to believe that India is prepared to negotiate a treaty without a tax sparing credit or similar U.S. investment incentive, as a number of other developing countries have done. Concluding a tax treaty with India would be a useful step toward improving the investment climate in India and making India more attractive to U.S. investors.

RECOMMENDATION

The United States should pursue with India the possibility of entering into a tax treaty. We should agree to begin negotiations, however, only after receiving a commitment from India that they will not insist on a tax sparing credit as a necessary component of a tax treaty with the United States.

Drafted by: Mordecai Feinberg/XAA
Cleared by: A. W. Granwell/XAA

August 18, 1982

Unclassified

AID: Proposed Private Enterprise Bureau Initiatives for India

Description of Initiative

The U.S. bilateral aid program is being refocused to encourage an indigenous private sector which can serve as a force for growth in developing countries. The Bureau for Private Enterprise (BPE) serves as AID's laboratory for experimentation with innovative project and program ideas designed to generate economic development and growth in developing nations through stimulation and expansion of private business.

To conserve on AID resources, BPE selected 10 countries for initial attention for FY 1982 and 1983. Each country was selected because it has a viable private sector which is encouraged by the host government, has strategic and commercial importance to the United States, and has an AID mission in place. India can be added to the list of target countries. As with other target countries, BPE would assemble a team of senior business executives with expertise in key sectors (e.g., small business develoment, agri-business, capital market institutions, climate for investment laws and regulations, and management/vocational training) to visit India. The reconnaissance team's finding and recommendations would form the basis of a BPE program. (N.B. Addition of India to the target country list is subject to specific recommendation resulting from a review of that country's business environment by AID's Bureau for Asia.)

Recommendation

BPE add India to its list of target countries beginning in FY 1983 and proceed on a timely basis with a reconnaissance mission of senior business executives.

Description of Initiative

An interagency group under State Department auspices is being established to review uses of excess rupees owned by USG (see separate background paper: Excess Currency Status of India). The group should be encouraged to consider whether BPE be allocated use of a portion of U.S. government-owned excess Indian rupees to finance indigenous private enterprise related activities: Selected recommendations of the team would form the basis of private enterprise related programs in India. Examples of the types of projects include:

- Capitalization of new private intermediate institutions to provide financing to targeted small- and medium-sized businesses. Such institutions might include leasing companies, venture capital firms, and intermediate credit institutions.

- Provision of funds to existing private financial institutions, either Indian or branches/affiliates of U.S., for on-lending to small- and medium-sized Indian private business enterprises or doing ventures with U.S. firms.

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- Direct financing (loan, convertible/subordinated debenture) from AID/BPE to selected indigenous businesses or joint ventures with substantial develomental impact and high probability for replication.

- Detailed study and preparation of specific recommendations relating to (1) policy, legal, and regulatory revisions related to climate for investment issues, (2) development of vocational/management training programs directed to specific employer defined employment needs, and (3) appropriate debt and equity financing mechanisms given India's business environment and sophistication of its capital market.

Recommendation

That BPE be allocated some portion (possible $75 million of U.S. government-owned excess rupees to finance programs suggested by the proposed PRE reconnaissance team (such as those outlined above).

Drafted by: B. Bouchard, AID/BPE

Cleared by: S. Scheinman, AID/BPE
C. Greenleaf, AID/AA
J. Formoso, Treasury
R. Silberman, OMB

GATT: INTERNATIONAL INVESTMENT INITIATIVE

Description of Initiative or Activity

The U.S. will be pushing for the adoption of an extensive work program on trade related investment measures at the GATT Ministerial meeting in November. The work program would include an identification of trade distorting investment practices, such as investment incentives and disincentives including local content and export requirements; assessment of their impact; and examination of ways GATT rules may be applied to these practices. The long-term U.S. objective of this initiative is to develop an effective multilateral framework for addressing trade-related investment problems. If adopted, the GATT work program would likely be initiated in early 1983.

Recommendation

Developing an effective multilateral framework for addressing these issues will be controversial and require years of effort. The adoption of the GATT work program is only the first step in this process. As a result, the benefit from this initiative to India and other countries, will not be experienced for some time.

At this point, India sees little benefit to herself from the initiative and is, in fact, leading the opposition to it in the GATT. India argues that the GATT has no authority in investment issues. An additional consideration is that India offers a range of programs containing investment incentives, disincentives, and subsidies and, therefore, is reluctant to agree to an exercise that may lead to eventual GATT discipline aimed at reducing or eliminating these restrictive investment practices. Reduced reliance on the use of restrictive trade-related investment practices, however, will benefit India and other countries by improving market efficiency and contributing to a more stable investment climate.

Drafted by: D.Maloney/OASIA/ITI
Cleared by: Harvey Bale/USTR
John McCarthy/State

August 19, 1982

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Private capital markets are an obvious source of finance for India as its reliance on concessional sources of funds decreases. Commercial banks are the major lenders, both directly to their customers and through the syndicated loan market. In addition, investment banks can help the more creditworthy LDCs tap the private placement and, in exceptional cases, public bond markets.

Commercial banks extend predominantly short-term credit, especially to finance trade; this emphasis has become more pronounced lately as uncertain economic conditions have induced greater caution and reluctance to extend medium-term credits for development projects or balance of payments purposes. Public and private debt issues, in contrast, usually have maturities of several years, but the volume and maturities of funds available have both decreased because of unsettled conditions in the long-term money markets. Interest rates on bank credits are usually "floating," i.e. adjusted periodically to reflect market levels. The rates on public and private debt issues have generally been fixed, but as interest rates have become more volatile and long-term fixed-rate money scarcer, "floating" rates have become more common. Interest rates in both categories have recently been at historically high levels.

India already enjoys access to commercial bank credit through established relationships between U.S. banks and Indian banks, corporations, and government entities. Indeed, until recently, the banks found it difficult to persuade India to borrow from them given her access to concessional sources of funds. Although the availability of funds for international lending has decreased somewhat lately, India is still a relatively attractive borrower because of her low level of outstanding debt and should be able to raise significant amounts of funds through this channel.

India's access to private placements and international bond issues is extremely limited because there is significant investor resistance to Indian paper. This negative attitude reflects not so much a lack of familiarity or information but a judgment about the country's economic and financial situation.

India's financial managers are intelligent and sophisticated. They are familiar with international credit markets and routinely raise funds there. There is little technical assistance we could provide that they do not have or could easily acquire.

The United States has an established policy of not promoting or restricting the flow of private credit to individual countries. We do not try to sway the commercial judgment of lenders.

RECOMMENDATION

That we encourage India to make greater use of international capital markets but that we refrain from direct involvement.

Drafted by: DCKruse/IMB
Cleared by: JEAmmerman/IMB
August 17, 1982

Controlled by JE Ammerman

LIMITED OFFICIAL USE

Date Aug 17 1982

IBRD: Multilateral Investment Insurance

Description of Activity

Private investment in developing countries in general and in particular in India, can be a most effective agent for furthering economic development. In this general vein, World Bank President Clausen, at the 1981 Bank/Fund annual meeting, floated the idea that the Bank take the lead in sponsoring a multilateral investment insurance scheme. After informal consultations, the IBRD staff prepared a preliminary report on the Multilateral Investment Insurance Agency (MIIA) in July 1982 examining the feasibility of creating such a mechanism and presented the key principles of a possible scheme. As a result of Executive Board discussion on August 10 of that report, the Bank staff will study this scheme further and produce a series of papers (the first of which is hoped for by the beginning of 1983) laying out options for Board consideration. Although Clausen may prefer quick consideration of the MIIA, negotiation of such a mechanism may be protracted. While this exercise does not focus directly on India or any other particular LDC, its contribution in the long run to an enhanced investment climate in transitional economies like India could be significant.

Recommendation

Establishing a multilateral investment insurance scheme could in the long run be one additional factor fostering the growth of private investment in LDCs, especially large and diverse economies (like India). We have supported the basic concept of Mr. Clausen's initiative and improvements in the investment area in general. (N.B. The intervention of the Indian ED during Board discussion focused on their concern of having MIIA linked to the IBRD.) The United States can through its Executive Director (ED), encourage the Bank to continue its work and present papers to the Board on a timely basis. At the same time, we are concerned that strong overt USG support, at this stage, could be fatal; we thus believe the United States can be most effective supporting the Bank in private discussions with other developed countries, certain OPEC members, and key developing countries including India.

In the past, India has not provided a climate condusive to large foreign investment. However, recent government actions indicate that India may now be looking more favorably at the foreign investment which provides needed new technology and capital in specific target sectors.

Therefore, the USED could open an informal dialogue with the Indian ED in order to explore the potential benefits to India of such a scheme. If appropriate, the U.S. and Indian EDs could work together or in parallel to develop support among key developing countries for such a mechanism and, at a later stage of consultations and negotiations, on specific options.

Drafted by: J. Formoso/IDP

Cleared by: J. Hartzell/IDP
D. Maloney/ITI
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D. Montgomery/EB/OIA
R. Woody/EB/ODF
J. Burnham/USED

August 19, 1982

Expansion of IFC Activity in India

DESCRIPTION OF ACTIVITY: The IFC, a World Bank affiliate, is mandated to encourage productive private investment in member countries by lending to or purchasing equity participation in private enterprises (without government guarantees). The IFC also specializes in mobilizing domestic and foreign resources in its investment programs; for every dollar of project cost, the IFC typically contributes 25 cents, and, in turn, syndicates half of its participation with foreign institutions thus acquainting international capital markets with LDC investment opportunities. In addition to its lending program, the IFC offers technical assistance and funding to develop capital markets in developing countries in order to intermediate domestic saving into productive investment.

Although India currently is the fifth largest recipient of IFC investments, 70 percent of IFC investments have occured only in the last two years, reflecting the change in attitude of the present government to private investment and the benefits of private sector development. Futhermore, IFC Executive Vice President Wuttke has indicated that substantial potential still exists for expanded private sector development via IFC activity. From a U.S. viewpoint, the IFC could serve as an excellent transitional institution in the maturation process from IDA resources to non-concessional (commercial) resources because of its reliance on market forces in its investment decisions, its expertise in mobilizing, and thus acquainting LDCs with, international capital sources, its capital market development experience, and, most important, its policy advice for promoting a favorable investment climate.

RECOMMENDATION: The U.S. Executive Director should encourage the IFC to expand its investment activity in India as well as concentrate on providing technical assistance in capital market development and policy advice that promotes a favorable investment climate for private sector development.

Furthermore, AID and OPIC should seek to identify private investment opportunities in India that would be appropriate for IFC involvement and that would be conducive to external participation by international financial institutions.

Finally, the United States, in bilateral discussions, should encourage India to seek IFC programs and technical assistance as an important, interal part of its development program.

Drafted by: R. Cassidy/IDP
Cleared by: R. Frederick/IDP
J. Hartzell/IDP (Subs)
N. Coar/IDB

Indian Access to Expanded IFC

DESCRIPTION

Within the Administration, consideration is now being given to the possibility of proceeding with an expansion of the International Finance Corporation (IFC), perhaps as early as FY 1985. The IFC is an affiliate of the World Bank Group. Established in 1956, it has made cumulative loan and equity investments of $4.2 billion in 80 member countries ($1.2 billion currently disbursed and outstanding). It has an authorized capital stock of $650 million and has borrowings of $881 million from the World Bank ($495 million withdrawn and outstanding). The purpose of the IFC is to encourage the growth of productive enterprise in developing member countries. In association with private investors, it makes loans and/or equity investments in projects designed to establish, improve or expand private enterprises. It also seeks to bring together specific investment opportunties involving both foreign and domestic investors and, in general, to create conditions conducive to the flow of private capital.

RECOMMENDATION

Should the expansion of the IFC proceed in FY 1985, the United States should encourage much greater activity in India. India. In the interim, depending on other uses and sources of IFC funds, it is possible that additional activity can be encouraged in India before an expansion takes place.

Drafted by: N. Coar/IDB
Cleared by: R. Cassidy/IDP

August 24, 1982

India's Possible Access to ADB Equity Investment Fund

DESCRIPTION

India is eligible for borrowing from the Asian Development Bank (ADB), but up until now it has agreed to refrain from borrowing. India wants to begin borrowing from ADB during the period of the next ADB general capital increase (1983-1987) which is under consideration. The U.S. is opposed to this request.

A possible alternative to borrowing is Indian access to ADB equity funds. Establishment of a $20 million fund (financed by transfers from the Bank's net income) for ADB equity participation in private enterprises in developing countries is under consideration by the ADB Board of Directors. The U.S. supported the concept during preliminary discussions, but requested further work on the proposal. Given satisfactory progress, the equity fund could begin operations during the next twelve months.

RECOMMENDATION

Depending on the final size of the fund and the requirements of other developing countries, and assuming India does not begin borrowing from the ADB otherwise, the U.S. is prepared to consider Indian access to the ADB's equity investment fund.

Drafted by: Rob Cox/OIDB

Cleared by: Jim Conrow/OIDB
Jon Hartzell/OIDP

August 23, 1982

Excess Currency Status of India

At the beginning of FY82, the United States owned almost $570 million worth of Indian Rupees, the largest balances of any excess currency country. With U.S. government expenditures in India in FY82 projected at about $57 million, U.S. balances (after taking account of receipts) are estimated to have dropped to $516 million by the end of the fiscal year -- about 9 years normal embassy use. However, India would loose its excess currency status in about four years.

The current large holdings of U.S. owned rupees represent undrawn balances culminating from the Rupee Settlement Agreement (the Moynihan Agreement), which settled the outstanding Indian debt to the United States. Under this agreement, U.S. expenditures are restricted by an annual limitation (originally set at $60 million but estimated to have increased to over $100 million due to the inflation provision) and to those uses of the currency that prevailed prior to 1972. Approved uses would include, in addition to normal embassey expenditures, AID project assistance and "Cooley Loans."

Recently, concern has been expressed by the Department of State's Inspector General's Office, as well as U.S. Ambassador Barnes, that U.S. owned rupee balances are not being used for their most efficient and productive purposes and are being rapidly and needlessly drawn down. Consequently, the Department of State is setting up a user group review process that would consist of the Departments of State and Treasury, OMB and other departments and agencies that are users of excess Indian rupees. In addition, all requests for foreign currency appropriations or allocations will be forwarded to the U.S. embassy in India for review for foreign policy considerations. This review process is intended to eliminate projects of questionable merit and thus maintain rupee balances for more productive U.S. government uses.

Background

The significance of the excess currency determination lies in the availability of these funds for U.S. agencies' use. Normally, government agencies requiring foreign currency for overseas programs must seek regular dollar appropriations to purchase foreign currency. For excess currency countries, however, agencies may seek special foreign currency appropriations to purchase U.S. owned nonconvertible currency. These appropriations are treated separately in the budget submission to Congress and are easier to obtain since they have no impact on the budget deficit. (Because of the relatively easy appropriations process, many requests consist of marginal projects that would not survive normal congressional review.) There are some special exceptions to the necessity to appropriate

dollars via special foreign currency appropriations. For example, section 104 of PL-480 provides for direct allocations of excess currencies for "Cooley Loans" to U.S. private firms investing in excess currency countries, and for AID projects.

In addition to budgetary considerations, a determination of excess currency for a country can have significant balance of payment effects. Normally, U.S. government programs in non-excess foreign countries result in dollar outflows from the U.S. After an excess determination, however, U.S. government agencies are required to use U.S. owned excess currency for its local expenses in that country, thus reducing dollar outflows.

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Support for Higher Levels of Indian Borrowing From the IBRD

Description of Initiative

As India's share of concessional IDA resources is reduced, India's share of IBRD resources can be increased, consistent with India's ability to service the harder terms of IBRD loans. The percentage of IBRD resources going to India already has been increasing in recent years, from 4 percent in 1979 to 12 percent in 1982. This increase in IBRD lending to India has more than offset the decline in IDA resources allocated to India. The result has been that India's share of total IBRD/IDA resources has continued to grow, from 14 percent in FY 80 and FY 81 to 17 percent in FY 82, making India the largest recipient of both IDA and IBRD resources in FY 82. Based on the IBRD's projected five-year (FY 82-86) program, India could receive in the range of $7.2 billion to $9.0 billion over that period, assuming that India's share of IBRD resources is in the range of 12-15%.

Recommendation

The U.S. supports continuation of a substantial flow of World Bank resources to India, with an increasing percentage of those resources being provided by the IBRD.